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SUBJECT: SINGAPORE MAKING CHANGES TO AVOID TAX HAVEN LABEL

¶1. This cable is classified Sensitive but Unclassified (SBU) please protect accordingly.

¶2. (SBU) Summary. The Government of Singapore (GOS), concerned that being labeled as a non-cooperative tax haven would dent its ambitions to become a global financial center, announced on March 6th that it would make necessary legal changes in order to adhere to an Organization for Economic Cooperation and Development (OECD) standard for information exchange on tax compliance. At the same time, the GOS is pursuing an all-out lobbying effort to forestall any plans to put Singapore on any tax haven blacklist. End Summary.

Increased U.S. and G-20 Pressure

¶3. (SBU) U.S. efforts to target uncooperative institutions and jurisdictions have jarred Singapore officials. In February, the USG levied a \$780m fine on Switzerland's UBS Bank, which narrowly escaped criminal indictment by turning over names of some 250-300 of its problematic wealthy clients. The March re-introduction of the Stop Tax Haven Abuse Act to penalize tax havens also raised concerns in Singapore. The bill explicitly named Singapore as a tax haven and would provide the U.S. government with a set of new tools to clamp down on offshore tax and tax shelter abuses.

¶4. (SBU) Internationally, the GOS is also concerned about European plans to push for the publication of a list of non-cooperative tax havens at the upcoming Group of 20 (G-20) meeting in London. At their March meeting in Horsham, the G-20 Finance Ministers called on "the relevant international bodies [to] identify non-cooperative jurisdictions and develop a tool box of effective countermeasures" to address the problem of jurisdictions that do not share information on tax issues (among other issues). International bodies working on the issue include the OECD, which has developed standards for transparency and effective exchange of tax information, and a United Nations committee of tax experts, which endorsed those standards last October. Some have called on the OECD to create a public list of uncooperative tax havens. According to press reports, OECD internal staff reports have included Singapore, among others, as a non-compliant jurisdiction. Singapore has undertaken an intense lobbying effort among members of the G-20 to stop the announcement of a blacklist or

at least to prevent Singapore from being put on one.

The Singapore Government's Stance

¶5. (SBU) Singapore does not consider itself as a tax haven. The GOS argues that its corporate income tax rate of 17 percent, while low and competitive, is not among the lowest in the world. Other countries and territories like Hong Kong (16.5 percent), Romania (16 percent), Ireland (12.5 percent) and Bulgaria (10 percent) have rates even lower than Singapore. The GOS also argues that Singapore is not a magnet for shell or "fly by night" companies, but rather attracts companies with concrete business activities. Officials note that at least 25 percent of GDP is manufacturing. Most importantly, the GOS argues that the rule of law is strong in Singapore and it has signed 60 tax agreements with other countries.

¶6. (SBU) Nevertheless, the pressure convinced the GOS that it would have to take pro-active measures to protect its reputation as a reputable global financial center. In a statement released on March 6, the Ministry of Finance (MoF) announced that it will introduce draft legislative amendments to provide the legal basis for its compliance with the OECD standard in mid-2009. Once the amendments have gained parliamentary approval, Singapore has expressed its willingness to extend further cooperation on information exchange through double taxation agreements (DTAs), with the caveat that it will respond only to legitimate requests for information and not fishing expeditions by foreign

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jurisdictions. The GOS also hopes to negotiate and conclude further DTAs. The United States does not have a comprehensive DTA with Singapore, in part due to concerns about Singapore's information sharing practices.

¶7. (SBU) Singapore's government-linked press has tried to put a brave face on the dramatic change in policy by arguing that relaxing banking secrecy rules may not necessarily be bad for Singapore's ambition of growing its financial sector. Analysts quoted in local newspapers suggest that closing the loopholes to tax fraud and tax evasion by foreigners could strengthen the robustness of the rule of law in Singapore. According to press reports, Mr. Anuj Kagalwala, corporate tax partner at PricewaterhouseCoopers, suggested that endorsing OECD standards should be a positive for Singapore as it could create greater acceptance of Singapore as a private banking center from the governments of the developed world.

Comment

¶8. (SBU) While Singapore has plans to amend its bank secrecy legislation to provide for greater transparency and information exchange, we remain doubtful about how far the GOS will go in sharing information on criminal investigation requests by foreign jurisdictions. Generally, the GOS adheres to the letter of the law. In its statement endorsing the OECD standard, the MoF seemed to imply that it will pick and choose the foreign jurisdictions to which it will extend cooperation in the exchange of information. Doubts among the international community will remain until the GOS proves the effectiveness of its new laws and its seriousness in implementing them.

SHIELDS